

The Becker Milk Company Limited



Annual Report

Year ended April 30, 1978



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BECKER'S



Highlights of the year

Year Ended April 30

	1978	1977	Percentage Change
Sales	140,039,831	135,876,529	+ 3.1
Operating earnings	3,676,082	4,466,930	-17.7
Net earnings	505,944	990,530	-48.9
Earnings per share	.27	.56	-51.1
Long term debt	3,600,468	3,486,567	+ 3.3
Shareholders' equity	16,227,591	16,185,787	+ .3
Shares outstanding—Class A	5,675	5,675	—
—Class B	1,179,610	1,179,610	—
—Common	540,750	540,750	—
Number of Stores	580	564	+ 2.8

Director's report to the shareholders



Your Company is now twenty-one years old. In human terms we have attained adulthood, grown up and reached the point where further growth would only be in the areas of experience, quality and maturity.

As a Corporation we are not subject to such limitations. We expect to continue our growth in every sense, physically as well as in quality and maturity.

Our overall growth during the twenty-one years has been very gratifying and has been attained despite the increasing competitiveness of our market-place in general and our industry in particular.

Profitable growth during the past few years has been especially difficult and it seems that for quite a number of times now we have found it necessary, in our report to shareholders, to refer to "intense competition within our industry".

Supermarket price wars, loss leadering, issuance of coupons and the introduction and re-introduction of "new" marketing concepts and slogans have become an every day occurrence. Competing chains herald their respective plans as better ways for the consumer to save more and more money when shopping for food.

During the past year, these pressures of competition did not ease, indeed an escalation took place.

Our own position was made more difficult by a labour dispute involving our plant and delivery employees in Toronto. As a result, for the first five months of the past year, our plant was operating under somewhat adverse conditions. The settlement of the dispute, resulting in a three year agreement with our employees, has now enabled us to operate our plant and delivery system with greater efficiency than before.

The difficult conditions are reflected in our rate of growth during this past year and in the operating results.

Our sales for the year were \$140,039,831, showing an increase of 3% from previous years sales. The number of outlets operating at the end of the year was 580, also showing a 3% increase.

Net earnings from operations were \$505,944, a reduction of 49% from previous years earnings of \$990,530. The per share earnings were 27 cents, compared to 56 cents the year before. We feel it is significant and encouraging that over 80% of these earnings occurred in the final quarter of the year.

The net increase of 16 stores in the number of our outlets was very low in comparison to other recent years. It was the result of restraint in the light of business conditions generally and our own circumstances particularly.

New store openings were significantly curtailed during the early part of the year. The net increase of stores was further affected as we looked at existing stores even more critically, closing marginal stores in the interest of overall efficiency and profitability.

For the second consecutive year now our capital expenditures have been reduced and fixed asset additions were lower by over one million dollars from the previous years figure. This helped us to again make an improvement in our working capital.

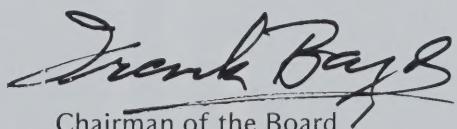
It is heartening that this year the improvement was achieved without any further inflow of capital and with earnings even further depressed from previous year.

Difficult business conditions are still with us. Competition in food industry is continuing and retail prices for milk are depressed.

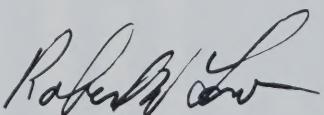
To maintain growth within such environment one must be ready and able to adjust and to change.

We are confident that we can and will continue to make all the adjustments necessary for our growth in the coming years.

Sincerely,

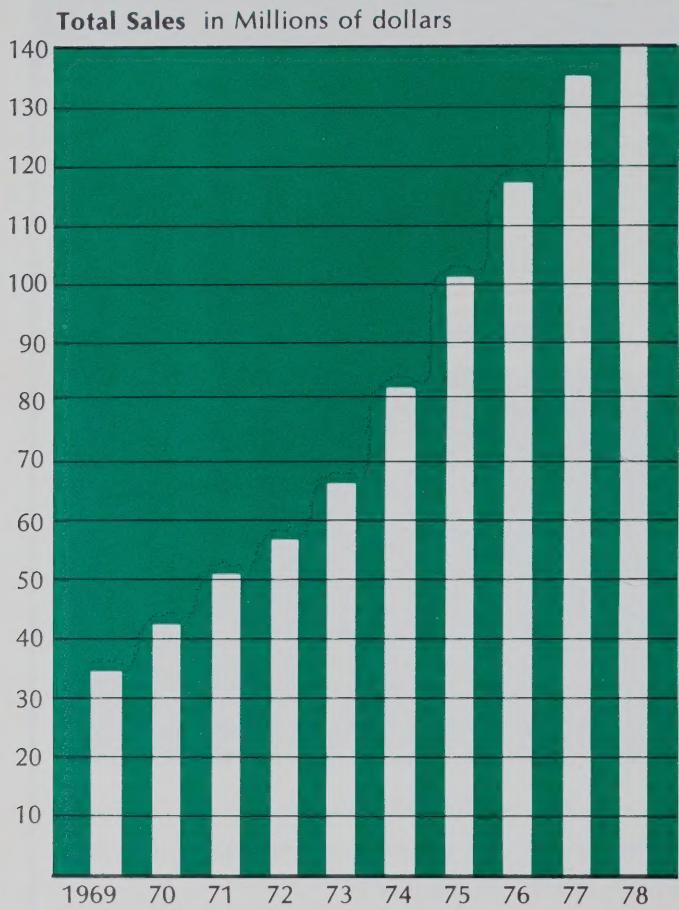


Frank Bayz
Chairman of the Board

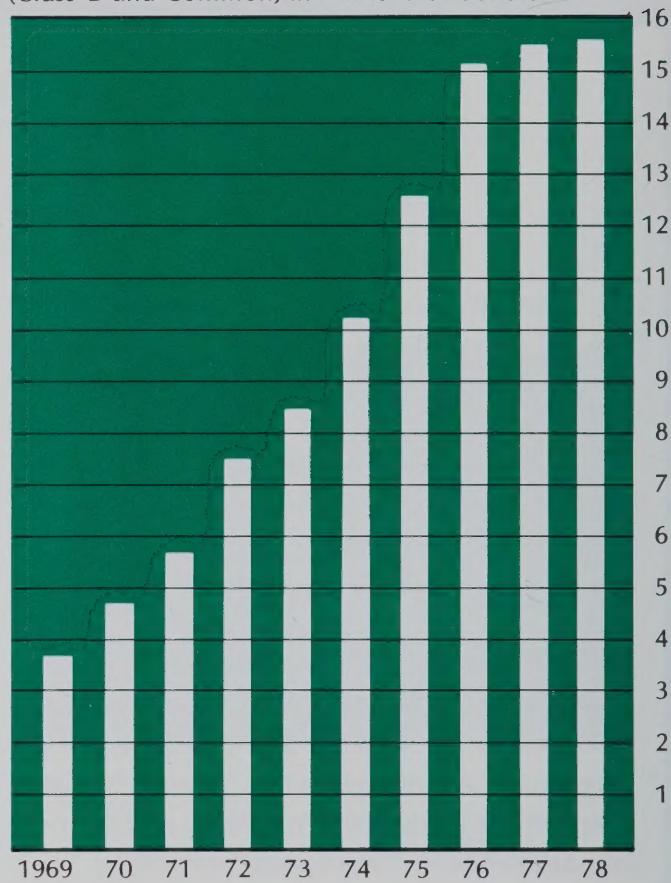


Robert W. Lovell
President

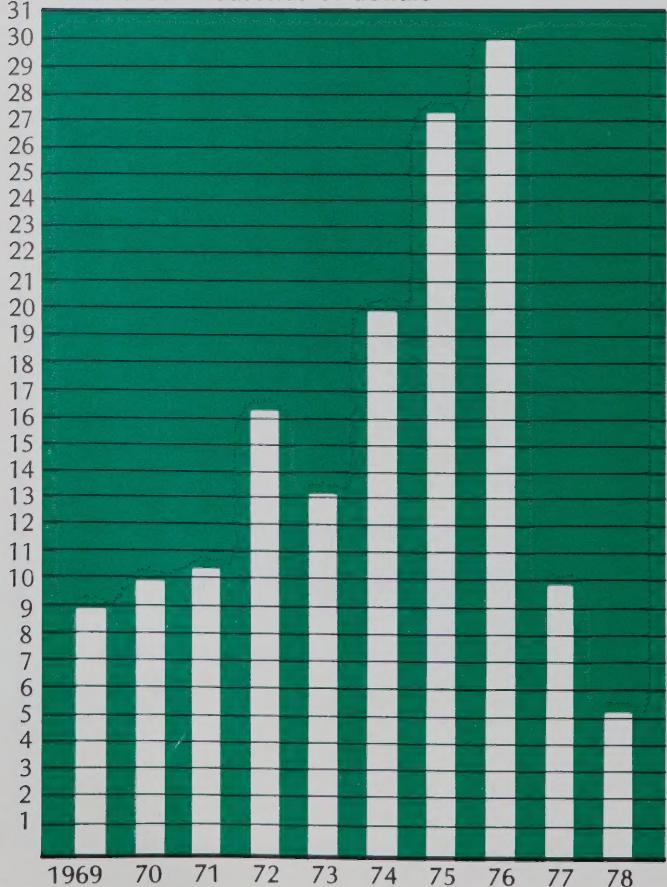
Financial Position



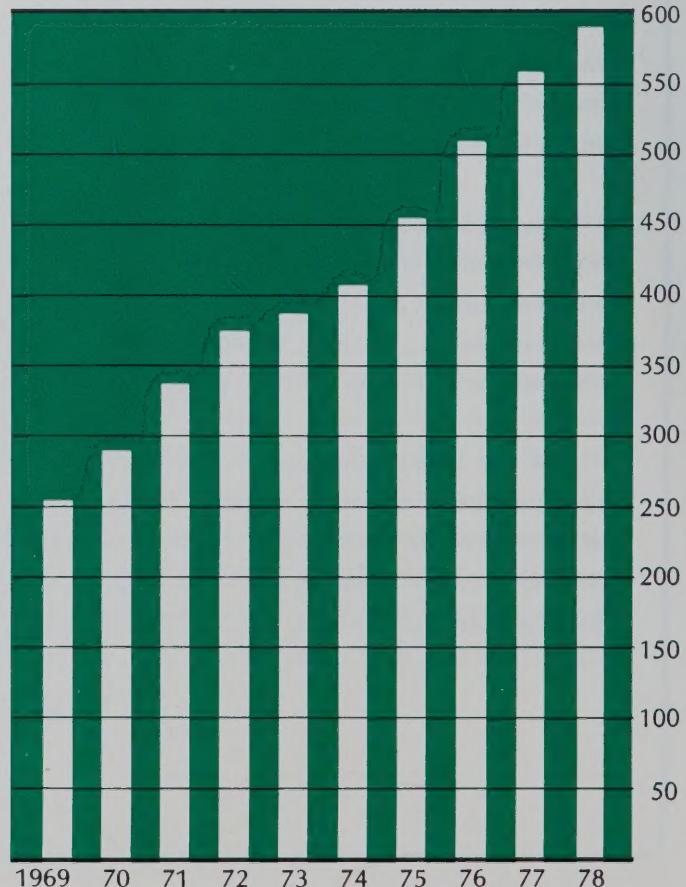
Shareholders' Equity
(Class B and Common) in Millions of dollars



Net Earnings (after tax)
in Hundred Thousands of dollars



Number of Stores



The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings

for the year ended April 30, 1978

	1978 \$	1977 \$
Balance at beginning of year	14,750,544	14,224,154
Net earnings for the year	505,944	990,530
	15,256,488	15,214,684
Dividends—class A preference shares	34,050	34,050
—class B preference shares	294,903	294,903
—common shares	135,187	135,187
	464,140	464,140
Balance at end of year	14,792,348	14,750,544

Consolidated Statement of Earnings

for the year ended April 30, 1978

	1978 \$	1977 \$
Sales — Note 1	140,039,831	135,876,529
Earnings before depreciation and amortization, interest charges and taxes on income	3,676,082	4,466,930
Depreciation and amortization	2,568,973	2,333,974
Interest charges on long-term debt	358,165	251,426
	2,927,138	2,585,400
Net earnings before taxes on income	748,944	1,881,530
Provision for income taxes —		
Current	—	776,500
Deferred	243,000	114,500
	243,000	891,000
Net earnings for the year	505,944	990,530
Earnings per class B and common shares	.27	.56

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Balance Sheet as at April 30, 1978

ASSETS

	1978	1977
	\$	\$
Current Assets		
Cash	50,510	48,140
Marketable securities - at cost	5,073	5,073
Accounts receivable	2,325,379	2,874,726
Inventories - Note 1	8,440,898	8,209,026
Prepaid expenses and deposits	248,633	208,808
Corporation income tax refund due	—	896,569
Mortgages receivable	186,269	164,010
	11,256,762	12,406,352
Investments		
Chattel mortgages receivable	131,272	302,332
Mortgages receivable	156,888	107,017
	288,160	409,349
Less: Principal due within one year	186,269	164,010
	101,891	245,339
Fixed Assets - Note 1		
Assets - at cost	34,937,086	32,077,501
Less: Accumulated depreciation and amortization	13,684,291	11,421,442
	21,252,795	20,656,059
Other Assets		
Rent deposits	14,542	15,292
Progress draws on equipment and building construction	136,657	127,886
Payment in respect of retail sales tax assessment - Note 2	—	163,375
Payment in respect of Department of Labour assessments -		
Note 3	582,575	582,575
Other	103,601	127,059
	837,375	1,016,187

Approved on behalf of the Board:

Director

Director

33,448,823 34,323,937

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Balance Sheet as at April 30, 1978

LIABILITIES

	1978	1977
	\$	\$
Current Liabilities		
Bank indebtedness — Note 7	1,509,627	3,669,640
Accounts payable and accrued charges	8,084,561	8,521,318
Dividends payable — Note 6	215,045	215,045
Deferred franchise income	61,921	65,817
Loan payable	1,265,000	
Sundry mortgages and debentures payable	582,480	464,091
	11,718,634	12,935,911
Long-Term Liabilities		
Deferred franchise income — Note 1	365,748	446,639
Deferred income — Note 2	134,791	
Series C debentures — Note 4	3,000,000	3,400,000
Sundry mortgages payable — Note 5	826,938	428,658
Other	221,219	122,000
	4,548,696	4,397,297
Less: Due within one year	644,401	529,908
	3,904,295	3,867,389
Deferred income taxes — Note 1	1,598,303	1,334,850
	17,221,232	18,138,150

SHAREHOLDERS' EQUITY

Share Capital

Authorized —

8,000 — 6% cumulative class A preference shares
with a par value of \$100 each, redeemable at par

2,459,250 — non-voting, non-cumulative, participating class
class B preference shares without par value

640,750 — common shares without par value

Issued and Fully Paid —

5,675 — class A Shares	567,500	567,500
1,179,610 — class B shares	867,455	867,455
540,750 — common shares	288	288

Retained earnings — Note 6

1,435,243	1,435,243
14,792,348	14,750,544

16,227,591	16,185,787
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33,448,823	34,323,937
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The accompanying notes are an integral part of the consolidated financial statements.

The Becker Milk Company Limited and Subsidiary Companies

Consolidated Statement of Changes in Financial Position for the year ended April 30, 1978

	1978 \$	1977 \$
Sources of Working Capital		
Net earnings for the year	505,944	990,530
Non-cash charges deducted in arriving at earnings, principally depreciation and deferred income taxes	2,875,430	2,443,400
Funds provided from operations	3,381,374	3,433,930
Increase in long-term debt and deferred income	36,906	1,636,825
Sale of fixed assets	192,243	92,958
Decrease in investments	143,448	183,489
Sales tax refund	163,375	—
Other	28,453	—
	3,945,799	5,347,202
Applications of Working Capital		
Fixed asset additions and progress draw billings	3,413,972	4,672,639
Dividends	464,140	464,140
Other	—	1,038
	3,878,112	5,137,817
Increase in working capital	67,687	209,385
Working capital deficiency at beginning of year	529,559	738,944
Working capital deficiency at end of year	461,872	529,559

Notes to Consolidated Financial Statements as at April 30, 1978

1. ACCOUNTING POLICIES

Principles of Consolidation

The accounts of the subsidiary companies have been included in the consolidation from the date of their acquisition.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined for processing and warehousing inventory on a first-in, first-out basis and for retail store inventories on a first-in, first-out basis applied by the retail inventory method.

Inventory values are as follows:-

	April 30	
	1978	1977
	\$	\$
Processing and warehousing		
Store	1,119,294	1,068,259
	7,321,604	7,140,767
	8,440,898	8,209,026

Fixed Assets

Fixed assets are valued at cost and are classified as follows:-

	1978	1977
	\$	\$
Land	2,429,901	2,278,313
Buildings and leasehold improvements	10,407,763	9,842,241
Store, production, automotive and office equipment	22,099,422	19,956,947
	34,937,086	32,077,501
Less: Accumulated depreciation and amortization	13,684,291	11,421,442
	21,252,795	20,656,059

Depreciation has been calculated in accordance with the Company's established policy of amortizing the depreciable properties over their estimated useful life, with the exception of trucks and automobiles, which have been depreciated at maximum normal rates permitted by regulation under The Canada Income Tax Act.

The Company has continued to claim maximum allowances for income tax purposes.

Sales

Sales include sales by Company-owned stores and sales by the Company to its franchisees.

Franchise Income

Franchise fees are taken into income over the term of the franchise agreement.

Income Taxes

Income taxes are accounted for on the tax allocation method, whereby income taxes are fully provided on reported earnings at current tax rates. Reported earnings differ from taxable income because of timing differences, principally depreciation and franchise fee income.

2. RETAIL SALES TAX ASSESSMENTS

During the year, The Supreme Court of Ontario ruled in favour of the Company regarding two assessments levied by The Retail Sales Tax Department, resulting in a refund to the Company of the amounts previously paid plus accrued interest of \$134,791. The Retail Sales Tax Department is appealing the decision and accordingly, the Company has reflected the interest received as deferred income pending the results of the appeal.

3. DEPARTMENT OF LABOUR ASSESSMENTS

The assessments are being contested and will result in a refund. At the present time, the amount of the refund is indeterminate.

4. SERIES C DEBENTURES

The authorized maximum loan from the Company's bankers under these debentures is \$10,800,000. Draw-downs may be made to December 1, 1979. The Company has drawn-down \$4,000,000 to date. Repayment of principal is 10% per annum of the amount of the draw-downs, the current annual repayment being \$400,000. The loan may be prepaid at any time without notice or bonus. The Company's bankers hold warrants to purchase 8,000 class B Shares at \$6.19. The warrants are exercisable on or before January 31, 1982. The debentures are secured by a charge on all assets presently owned and hereafter acquired. Dividends may be paid on any class of shares provided capital and retained earnings exceed \$10,000,000.

5. SUNDY MORTGAGES PAYABLE

The principal amounts mature up to 1986 with various interest rates not exceeding 12% per annum.

6. DIVIDENDS

On December 31, 1977, the Company declared a dividend of \$6 per share on its class A shares, being the dividend accruing from January 1, 1977 to December 31, 1977. This dividend totalling \$34,050 was paid on January 2, 1978. Dividends totalling 25¢ per share were declared on class B and common shares during the year.

7. FLOATING CHARGE DEBENTURE

The bank indebtedness is secured by a floating charge debenture.

8. REMUNERATION OF DIRECTORS AND OFFICERS

Expenses include \$341,544 (last year \$337,937) for remuneration of officers and \$8,800 (last year \$9,400) for directors.

9. LEASES

The minimum annual rentals payable (excluding insurance, property taxes and certain other occupancy charges) under the lease obligations for store locations amount to \$3,662,000. The total minimum rental liability under leases (excluding insurance, property taxes and certain other occupancy charges) to the date of expiry or option, whichever occurs first, amounts to \$17,209,000.

10. FEDERAL ANTI-INFLATION LEGISLATION

The Company is subject to the Anti-Inflation Act which restrains increases in certain prices, profit margins and compensation subsequent to October 14, 1975. Under the terms of the Anti-Inflation Act, the Company cannot pay dividends in excess of 28.6¢ per class B and common share during the period October 14, 1977 to October 13, 1978.

LANGLOIS, HAUCK & COMPANY

CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the proceedings referred to in Note 3, these consolidated financial statements present fairly the financial position of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario, July 11, 1978

Langlois, Hauck & Company
Chartered Accountants

The Becker Milk Company Limited
TEN YEARS OF
 Year ended

	1978	1977	1976	1975
	\$	\$	\$	\$
Sales	140,039,831	135,876,529	117,940,268	100,011,774
Earnings before depreciation and amortizations, interest and taxes on income	3,676,082	4,466,930	7,778,482	7,541,665
Depreciation and amortization	2,568,973	2,333,974	1,782,854	1,487,472
Interest	358,165	251,426	224,515	261,424
Taxes on income	243,000	891,000	2,758,000	3,017,000
Net earnings	505,944	990,530	3,013,113	2,775,769
Shareholders' equity (Note 1)	15,660,091	15,618,287	15,091,897	12,542,924
Shares outstanding (Note 1)	1,720,360	1,720,360	1,720,360	1,720,360
Net earnings per class B and common share (Note 2)	.27	.56	1.73	1.59
No. of stores (at end of fiscal year)	580	564	517	451
Net fixed asset additions	3,221,729	4,579,681	6,240,916	4,225,499

Notes

1. Combined Class B and Common.
2. Net earnings per share have been adjusted to allow for the current years Class "A" preference dividend. Dividends on Class "A" Shares from January 1, 1978 to April 30, 1978 amounting to \$11,350 have not been declared. and/or allowed in computing the shareholder's equity.

and Subsidiary Companies
PROGRESS
April 30

1974	1973	1972	1971	1970	1969
\$	\$	\$	\$	\$	\$
82,512,538	76,084,930	68,670,017	56,956,164	50,636,008	42,581,264
5,533,008	3,950,902	4,381,989	3,252,808	3,271,049	2,716,803
1,243,306	1,199,672	1,110,483	958,516	814,019	693,962
223,504	174,032	175,962	195,230	194,858	80,813
2,061,000	1,212,500	1,484,400	1,111,560	1,197,800	1,025,431
2,005,198	1,364,698	1,611,144	1,075,002	1,064,372	916,597
10,188,286	8,475,193	7,316,581	5,901,457	4,853,593	3,815,981
1,720,360	1,720,360	1,720,360	1,719,220	1,718,260	1,717,540
1.15	.77	.92	.60	.60	.51
412	392	374	340	293	251
1,750,575	2,324,134	2,178,436	2,167,127	2,165,236	2,244,977

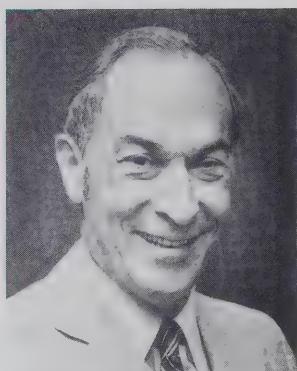
Directors and officers



Frank A. Bazos



Robert W. Lowe



E.S. Miles



William H. Zimmerman *



Robert Bazos



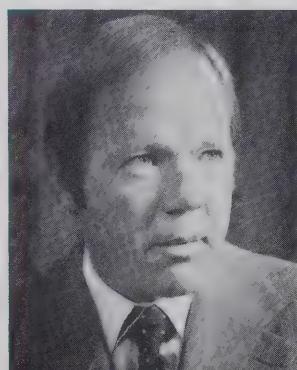
Harold Keene



George Panos



Arvi Magi



R.S. Paddon



Geoffrey W.J. Pottow

Board of Directors

Frank A. Bazos
Chairman of the Board
The Becker Milk Company Limited
Robert W. Lowe
President
The Becker Milk Company Limited
Robert Bazos
President
Perrette Dairy Limited
William H. Zimmerman *
Queen's Counsel
E.S. Miles
Executive
George Panos
Vice-President
The Becker Milk Company Limited
Geoffrey W.J. Pottow
Vice-President
The Becker Milk Company Limited
Arvi Magi
Vice-President-Treasurer
The Becker Milk Company Limited

Officers

Frank A. Bazos
Chairman of the Board
Robert W. Lowe
President
Robert Bazos
Vice-President
Arvi Magi
Vice-President and Treasurer
Harold Keene
Vice-President

George Panos
Vice-President
Geoffrey W.J. Pottow
Vice-President
R.S. Paddon
Secretary

Registrar and Transfer Agent
The Royal Trust Company, Toronto and Montreal

Auditors
Langlois, Hauck & Company, Toronto

Solicitors
Aird & Berlis

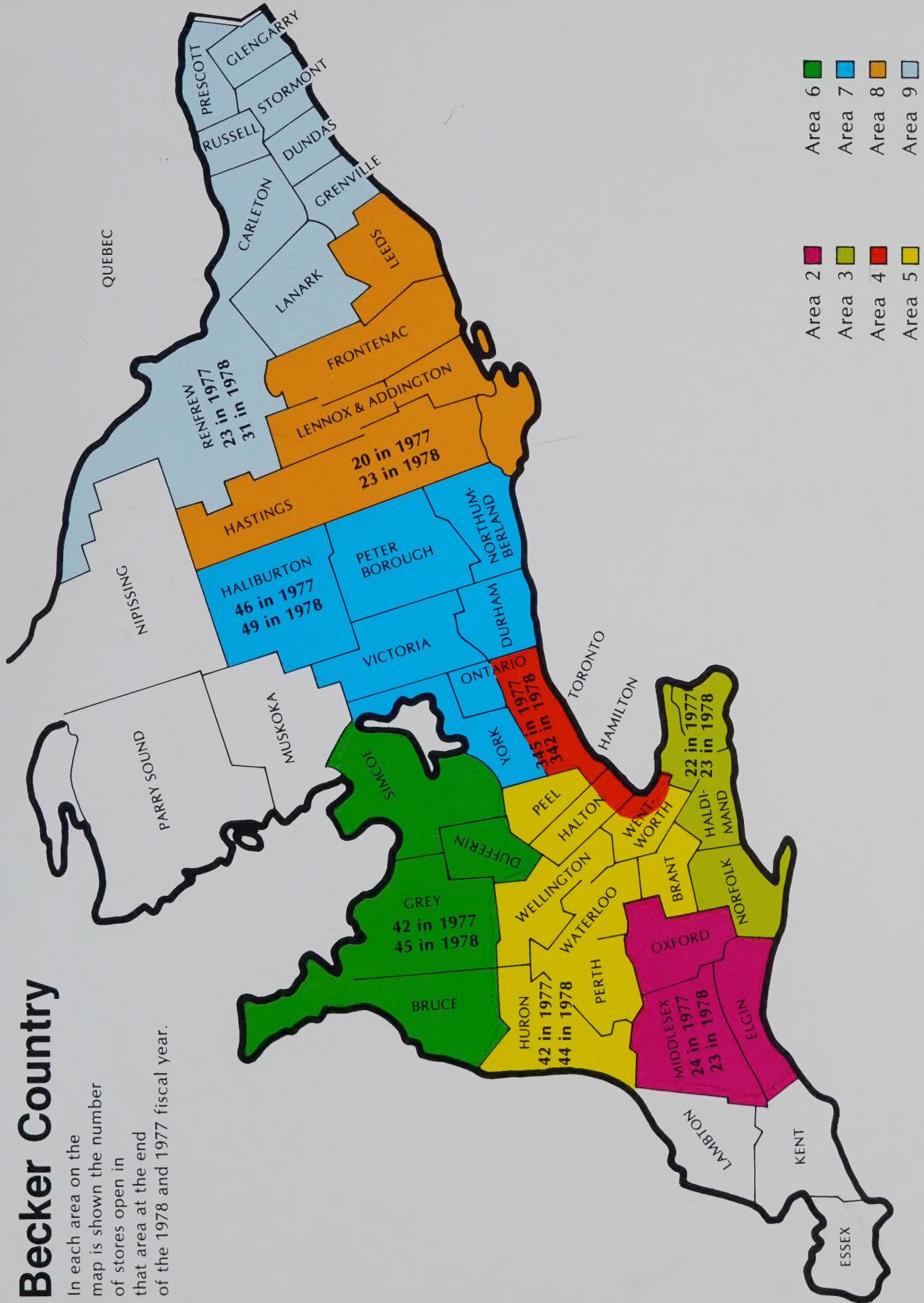
Stock Exchange Listing of Class "B" Shares
Toronto Stock Exchange

Head Office
671 Warden Ave., Scarborough, Ontario, Canada

* Deceased August 28th, 1978

Becker Country

In each area on the map is shown the number of stores open in that area at the end of the 1978 and 1977 fiscal year.



The Becker Milk Company Limited, 671 Warden Avenue, Scarborough, Ontario

**CONSOLIDATED STATEMENT OF
EARNINGS**

UNAUDITED

FOR THE SIX MONTHS ENDED
OCTOBER 31, 1978

HALF-YEAR HIGHLIGHTS
FOR THE SIX MONTHS ENDED OCTOBER 31, 1978

INTERIM REPORT

	1978	1977	
Sales	<u>✓ \$ 79,691,251</u>	<u>\$ 72,001,449</u>	
Earnings before depreciation and amortization, interest charges and taxes on income	<u>4,268,701</u>	<u>1,527,385</u>	
Depreciation and amortization	<u>1,300,277</u>	<u>1,240,931</u>	
Interest charges on long-term debt	<u>201,078</u>	<u>179,914</u>	
	<u>1,501,355</u>	<u>1,420,845</u>	
Net operating earnings	1,426,701	1,527,385	
Earnings per share	0.846	0.023	
Long-term debt	3,443,565	3,496,384	
Shareholders' equity	16,917,392	15,459,781	
Shares outstanding			
Class A	5,675	5,675	
Class B	1,179,610	1,179,610	
Provision for income taxes			
Current	1,395,000	127,000	
Deferred	<u>(100,000)</u>	<u>(77,000)</u>	
	<u>1,295,000</u>	<u>50,000</u>	
Net earnings for the period	<u>✓ 1,472,346</u>	<u>56,540</u>	
Earnings per class B and common share	<u>✓ .85</u>	<u>.02</u>	

THE BECKER MILK COMPANY LIMITED
AND SUBSIDIARY COMPANIES
TO THE SHAREHOLDERS OF
THE BECKER MILK COMPANY LIMITED
AND SUBSIDIARY COMPANIES

For the six months ended October 31, 1978

To Our Shareholders:

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

As of October 31, 1978 there were 586 Beckers'
Stores in operation in our "Becker Country".

UNAUDITED

FOR THE SIX MONTHS ENDED OCTOBER 31, 1978

	1978	1977	\$
Sources of Working Capital			
Net earnings for the period	1,472,346	56,540	
Non-cash charges deducted in arriving at earnings, principally depreciation and deferred income taxes	1,198,614	1,189,482	
Funds provided from operations	2,670,960	1,246,022	
Decrease in Investments	12,535	53,763	
Disposal of fixed assets	144,779	53,087	
	<u>2,828,274</u>	<u>1,352,872</u>	
Applications of Working Capital			
Fixed asset additions and progress draw payments	1,640,482	1,505,117	
Dividends declared	215,045	215,045	
Decrease (increase) in long-term debt	22,112	(9,817)	
Decrease in deferred income	6,635	38,979	
Other	310	-	
	<u>1,884,584</u>	<u>1,749,324</u>	
Increase (decrease) in working capital	943,690	(396,452)	
Working capital deficiency at beginning of period	461,872	529,559	
Working capital (deficiency) at end of period	<u>481,818</u>	<u>(926,011)</u>	

Net earnings from operations were \$1,472,346
an equivalent of 85 cents per share, after allowing
for the proportional Class "A" Preference Share
dividends. The net earnings from operations in
the same period last year were \$56,540 or 02
cents per share.

Sincerely

Chairman of the Board

President

December 14, 1978